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September 12, 2005

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2<sup>nd</sup> Floor  
Boston, MA 02110

Re: D.T.E. 04-118, Boston Edison Company, Cambridge Electric Light Company,  
Commonwealth Electric Company, NSTAR Gas Company – 2005 Pension  
Adjustment Factor Filing

Dear Secretary Cottrell:

Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company ("Cambridge"), Commonwealth Electric Company ("Commonwealth") and NSTAR Gas Company ("NSTAR Gas") (together, "NSTAR" or the "Companies") hereby submit an original and nine (9) copies of updated information relating to their Pension/PBOP Adjustment Factors ("PAF"). The filing supplements previous testimony filed by Christine L. Vaughan and includes updated schedules with actual data through December 31, 2004.

Any correspondence with regard to this filing should be directed to the following:

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Letter to Secretary Cottrell  
D.T.E. 04-118  
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Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Keegan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Robert J. Keegan

Enclosures

cc: Caroline Bulger, Hearing Officer  
Joseph Rogers, Assistant Attorney General  
Service List, D.T.E. 04-118

# **NSTAR ELECTRIC AND GAS**

## **Supplemental Direct Testimony of Christine L. Vaughan**

### **Exhibit CLV(Supp)**

**D.T.E. 04-118**

1    **I.       INTRODUCTION**

2    **Q.       Please state your name and business address.**

3    A.       My name is Christine L. Vaughan. My business address is One NSTAR Way,  
4               Westwood, Massachusetts, 02090.

5    **Q.       Have you previously submitted pre-filed testimony in this proceeding?**

6    A.       Yes. As part of the initial filing on December 7, 2004, by Boston Edison  
7               Company, Cambridge Electric Light Company, Commonwealth Electric  
8               Company and NSTAR Gas Company (together, the "Companies"), I submitted  
9               direct testimony, which has been marked for identification as Exhibit NSTAR-  
10              CLV.

11   **II.       PURPOSE OF TESTIMONY**

12   **Q.       What is the purpose of your supplemental testimony?**

13   A.       This testimony is intended to supplement my previous testimony with the primary  
14               purpose of updating the schedule supporting that testimony with actual data  
15               through December 31, 2004. My prior testimony was based on actual data  
16               through October 2004 only, with estimated data for the remainder of 2004.  
17               Exhibit NSTAR-CLV-1(Supp) reflects actual data through the end of 2004. With  
18               this update, the Department and the parties to this proceeding can review the final  
19               reconciliation of the Pension Adjustment Mechanism for the Companies for 2004.

1 The Companies' intention to file this update and the purpose of this update were  
2 explained in my prior testimony.

3 **Q. Other than updating data for the last portion of the year, are there any other**  
4 **changes included in this supplemental filing?**

5 A. For the 2004 pension adjustment factor calculation, no changes other than data  
6 updates have been made. For the 2005 pension adjustment factor calculation,  
7 changes have been made relating to the results of 2004. These changes include  
8 both updated data changes and the impact resulting from the Medicare  
9 Prescription Drug, Improvement and Modernization Act.

10 **Q. Please summarize the changes in the 2004 pension adjustment factor.**

11 A. Since the 2004 pension adjustment factor is based on results from 2002 and 2003,  
12 the majority of the calculation has not changed. The true-up of the amount  
13 actually collected is shown on lines 27 to 31 of NSTAR-CLV-1 p1. The PAM  
14 adjustment revenue and the interest rate calculation have been updated from  
15 forecasted to actual.

16 **Q. Please summarize the other changes that relate to results from 2004 activity.**

17 A. The results of the pension and PBOP plan expenses for 2004 were updated and  
18 are shown on page 3 of NSTAR-CLV-1. Also, the results of the actual prepaid  
19 balances for 2004 were updated and are shown on page 1 of NSTAR-CLV-1.  
20 Additionally, the impact for the Medicare Act is also incorporated in both of these  
21 schedules. These results are key inputs for the 2005 pension adjustment factor.

1   **Q.   Why has the Pension and PBOP Expense Currently in Distribution Rate**  
2   **Changed?**

3   **A.**   The amounts of pension and PBOP expenses currently in distribution rates were  
4       set in each company's last base rate case.  These amounts include both  
5       distribution and transmission and are fixed.  However, the transmission amount is  
6       collected from a formula rate that varies annually with the labor allocator of that  
7       year.  The remaining amount for distribution, once the variable transmission  
8       portion is subtracted, will vary slightly from year to year.  The values presented in  
9       NSTAR-CLV-1, page 1, line 4 include updates for the 2004 labor allocators.

10   **Q.   Please describe the Medicare Prescription Drug, Improvement and**  
11   **Modernization Act of 2003?**

12   **A.**   The Medicare Prescription Drug, Improvement and Modernization Act was  
13       passed in December 2003 and generally takes effect on January 1, 2006.  The Act  
14       substantially increases the coverage of Medicare by providing senior citizens with  
15       a prescription drug benefit.  In order to encourage employers to continue to offer  
16       prescription drug coverage to Medicare-eligible retirees, the Act provides a  
17       special direct subsidy from the federal government to employers who continue to  
18       offer drug coverage.  With the subsidy, an employer may receive an amount equal  
19       to 28 percent of allowable retiree drug costs between \$250 and \$5,000 per  
20       qualifying covered retiree in 2006, net of any rebates or other price concessions.  
21       Additionally this subsidy is not subject to federal or state income taxes.

1 **Q. What impact did the Act have on NSTAR's PBOP cost in 2004?**

2 A Based on amounts calculated by our actuary, NSTAR's PBOP cost was reduced  
3 by \$7 million in 2004 as a direct result of the Act. This adjustment has been  
4 included in the \$27.4 million PBOP cost for 2004 shown on page 3 of CVL-1 line  
5 8. Additionally, there are tax effects that affect the pension calculation that flow  
6 back to customers.

7 **Q. How are the tax effects calculated in the schedules?**

8 A There are two tax effects: one relating to the PBOP expense and one relating to  
9 the PBOP pre-paid balances. For the PBOP expense, since the ultimate subsidy  
10 which caused the decrease of the PBOP cost is tax-free, adjustments need to be  
11 made in order to flow back to customers the tax effect of this subsidy. The effect  
12 of this tax gross-up is included in NSTAR-CLV-1 page 3, line 9.

13 Impact of Medicare Act \$7 million

14 Amount applicable to regulated businesses: 98.92%

15 Impact on regulated businesses \$6.925

16 Tax gross up factor 65.54%

17 Tax effect of Act on PBOP Expense \$4.469

18 Since the Medicare subsidy is a permanent tax benefit, there are no deferred taxes  
19 associated with this component of the prepaid PBOP balance. The following  
20 adjustment to the deferred tax balance computation is therefore required:

21 Medicare effect as of 12/31/2003 \$0

1	Medicare effect as of 12/31/2004	\$6.925 million
2	Average balance	\$3.462
3	Multiply by tax rae	39.225%
4	Deferred tax adjustment	\$1.358

5 This adjustment is shown on NSTAR-CLV-1 page 1, line 19.

6 **Q. Are the Companies proposing a change in the existing PAM factors at this**  
7 **time?**

8 A. No. The previously approved PAM factors will remain in effect for 2005. The  
9 updated data will be trued up in the 2006 Adjustment Amount through the Past  
10 Period Reconciliation Adjustment with interest at the prime rate. The revenues  
11 and costs for these charges are self-reconciling, and the updated information will  
12 be incorporated into the calculation of PAM factors for 2006.

13 **Q. Does this conclude your testimony?**

14 A. Yes.

2005 Pension Adjustment Factor Calculation (\$'s in millions)

Line	Description Col. A	Cambridge Commonwealth				Total Col. F	Description Col. G
		Boston Edison Col. B	Electric Col. C	Electric Col. D	NSTAR Gas Col. E		
1	Unamortized Reconciliation Deferral at 12/31/2003	\$ 4.225	\$ 2.591	\$ 1.172	\$ 2.033	\$ 10.022	See Page 2, Line 7
2	2003 Reconciliation Amortization	2.113	1.296	0.586	1.017	5.011	Line 1 * 0.5 (2nd year of 3-year amortization)
3	2004 Pension & PBOP Distribution Expense	17.278	0.797	7.823	9.026	34.925	Page 3, line 16
4	less: Pension & PBOP Expense Currently in Distribution Rates	22.371	0.954	7.079	4.818	35.221	Per Company Records
5	2004 Reconciliation Deferral	(5.092)	(0.157)	0.745	4.208	(0.297)	Line 3 - Line 4
6	2004 Reconciliation Amortization	(1.697)	(0.052)	0.248	1.403	(0.099)	Line 5 / 3 (1st year of 3-year amortization)
7	Reconciliation Adjustment For 2005	\$ 0.415	\$ 1.243	\$ 0.834	\$ 2.419	\$ 4.912	Line 2 + Line 6
8	Unamortized Reconciliation Deferral at 12/31/2004	\$ (1.282)	\$ 1.191	\$ 1.082	\$ 3.822	\$ 4.813	Line 1 + Line 5- Line 7
<b>Carrying Charge Calculation:</b>							
9	Cost of Capital Factor	10.88%	10.88%	10.88%	10.88%	10.88%	Per D.T.E. 03-47-A (Note 1)
10	Actual Pension Prepaid at 12/31/2003 (Note 2)	157.912	8.124	55.385	53.835	275.256	Page 2, Line 11
11	Actual Pension Prepaid at 12/31/2004 (Note 2)	155.552	8.434	54.153	56.051	274.190	Per Company Records
12	2004 Average Pension Prepaid	156.732	8.279	54.769	54.943	274.723	(Line 10 + Line 11) / 2
13	Deferred Tax on Pension	(50.412)	(2.663)	(17.616)	(17.672)	(88.363)	Line 12 * .82 * 0.39225
14	Pension Balance Subject to Carrying Charge	\$ 106.320	\$ 5.616	\$ 37.153	\$ 37.271	\$ 186.360	Line 12 + Line 13
15	Actual PBOP Prepaid at 12/31/2003	\$ (29.970)	\$ (1.542)	\$ (10.511)	\$ (10.217)	\$ (52.240)	Page 2, Line 16
16	Actual PBOP Prepaid at 12/31/2004	(34.092)	(1.848)	(11.869)	(12.285)	(60.094)	Per Company Records (utility portion)
17	2004 Average PBOP Prepaid	(32.031)	(1.695)	(11.190)	(11.251)	(56.167)	(Line 15 + Line 16) / 2
18	Deferred Tax on PBOP	10.428	0.552	3.643	3.663	18.286	Line 17 * .83 * 0.39225
19	Deferred Tax Adjustment for Medicare Act	0.770	0.042	0.268	0.278	1.358	\$7/2 * 0.39225* allocation factors
20	PBOP Balance Subject to Carrying Charge	\$ (20.832)	\$ (1.101)	\$ (7.279)	\$ (7.310)	\$ (36.523)	Line 17 + Line 18+ Line 19
21	Carrying Charge on Average Prepaid	\$ 9.301	\$ 0.491	\$ 3.250	\$ 3.260	\$ 16.302	((Line 14 + 20) * Line 9)
22	Reconciliation Deferral	\$ (0.867)	\$ 2.434	\$ 1.917	\$ 6.241	\$ 9.725	Line 1 + Line 5
23	Deferred Tax Amount	0.340	(0.955)	(0.752)	(2.448)	(3.815)	Line 22 * 0.39225
24	Balance Subject to Carrying Charge	\$ (0.527)	\$ 1.480	\$ 1.165	\$ 3.793	\$ 5.911	Line 22 + Line 23
25	Carrying Charge on Deferral Balance	\$ (0.057)	\$ 0.161	\$ 0.127	\$ 0.413	\$ 0.643	Line 24 * Line 9
26	Total Carrying Charges	\$ 9.244	\$ 0.652	\$ 3.377	\$ 3.672	\$ 16.945	Line 21 + Line 25
27	2004 Pension/PBOP Adjustment Amount	11.245	1.998	3.714	4.087	21.044	Page 2, Line 35
28	less: 2004 Pension/PBOP Adjustment Revenue	12.772	1.951	3.053	3.220	20.996	Per Company Records
29	Prior Period Reconciliation Amount	(1.527)	0.048	0.661	0.867	0.048	Line 27 - Line 28
30	Interest at Prime Rate 4.426%	(0.068)	0.002	0.029	0.038	0.002	Prime rate as per 220 § 6.08(2)
31	Past Period Reconciliation Amount	(1.594)	0.050	0.690	0.905	0.050	Line 29 + Line 30
32	Actual 2005 Pension/PBOP Adjustment Amount	8.065	1.945	4.901	6.997	21.908	Line 7 + Line 26 + Line 31

Note 1: This before-tax factor is equal to the after-tax factor of 8.16 percent authorized by the Department.

Note 2: The balances have been reduced to eliminate the amount recovered from transmission customers and non-utility businesses



2004 Pension Adjustment Factor Calculation (\$'s in millions)

Line	Description	Cambridge					Total	Description
		Boston Edison	Electric	Electric	NSTAR Gas			
	Col. A	Col. B	Col. C	Col. D	Col. E	Col. F		Col. G
1	Unamortized Reconciliation Deferral at 12/31/2002	\$ 4.198	\$ 3.712	\$ -	\$ -	\$ 7.910		Per D.T.E. 03-47-A (Notes 1, 2)
2	2003 Pension & PBOP Distribuion Expense Sept - Dec	9.869	0.491	4.166	4.656	19.182		Page 4, line 14
3	less: Pension & PBOP Expense Currently in Distrib. Rates, 4 mo	7.728	0.316	2.408	1.606	12.058		Per Company Records (Sept - Dec)
4	2003 Reconciliation Deferral	2.140	0.175	1.758	3.050	7.123		Line 2 - Line 3
5	2003 Reconciliation Adjustment	0.713	0.058	0.586	1.017	2.374		Line 4 / 3
6	Calculated Reconciliation Adjustment For 2004	\$ 2.113	\$ 1.296	\$ 0.586	\$ 1.017	\$ 5.011		(Line 1 / 3) + Line 5
7	Unamortized Reconciliation Deferral at 12/31/2003	\$ 4.225	\$ 2.591	\$ 1.172	\$ 2.033	\$ 10.022		Line 1 + Line 4 - Line 6
8	<b>Carrying Charge Calculation:</b>							
9	Cost of Capital Factor	10.88%	10.88%	10.88%	10.88%	10.88%		Per D.T.E. 03-47-A (Note 3)
10	Actual Pension Prepaid at 12/31/2002 (Note 4)	\$ 140.056	\$ 7.205	\$ 49.123	\$ 47.747	\$ 244.131		Per Company Records
11	Actual Pension Prepaid at 12/31/2003 (Note 4)	157.912	8.124	55.385	53.835	275.256		Per Company Records
12	2003 Average Pension Prepaid	148.984	7.664	52.254	50.791	259.694		(Line 10 + Line 11) / 2
13	Deferred Tax on Pension	(47.920)	(2.465)	(16.807)	(16.337)	(83.529)		Line 12 * .82 * 0.39225
14	Pension Balance Subject to Carrying Charge	\$ 101.064	\$ 5.199	\$ 35.447	\$ 34.454	\$ 176.164		Line 12 + Line 13
15	Actual PBOP Prepaid at 12/31/2002	\$ (29.664)	\$ (1.526)	\$ (10.404)	\$ (10.113)	\$ (51.707)		Per Company Records (utility portion)
16	Actual PBOP Prepaid at 12/31/2003	(29.970)	(1.542)	(10.511)	(10.217)	(52.240)		Per Company Records (utility portion)
17	2003 Average PBOP Prepaid	(29.817)	(1.534)	(10.458)	(10.165)	(51.973)		(Line 10 + Line 16) / 2
18	Deferred Tax on PBOP	9.707	0.499	3.405	3.309	16.921		Line 17 * .83 * 0.39225
19	PBOP Balance Subject to Carrying Charge	\$ (20.109)	\$ (1.035)	\$ (7.053)	\$ (6.856)	\$ (35.053)		Line 17 + Line 18
20	Carrying Charge on Average Prepaid	\$ 8.808	\$ 0.453	\$ 3.089	\$ 3.003	\$ 15.353		((Line 14 + 19) * Line 9)
21	Existing Reconciliation Deferral	\$ 4.198	\$ 3.712	\$ -	\$ -	\$ 7.910		Line 1
22	Deferred Tax Amount	(1.647)	(1.456)	-	-	(3.103)		Line 21 * 0.39225
23	Balance Subject to Carrying Charge	\$ 2.551	\$ 2.256	\$ -	\$ -	\$ 4.807		Line 21 + Line 22
24	Carrying Charge on Existing Deferral Balance	\$ 0.278	\$ 0.245	\$ -	\$ -	\$ 0.523		Line 23 * Line 9
25	Unamortized Reconciliation Deferral at 12/31/03	\$ 2.140	\$ 0.175	\$ 1.758	\$ 3.050	\$ 7.123		Line 4
26	Deferred Tax Amount	(0.840)	(0.069)	(0.690)	(1.196)	(2.794)		Line 25 * 0.39225
27	Balance Subject to Carrying Charge	\$ 1.301	\$ 0.106	\$ 1.068	\$ 1.854	\$ 4.329		Line 25 + Line 26
28	Carrying Charge on 12/31/03 Deferral Balance	\$ 0.047	\$ 0.004	\$ 0.039	\$ 0.067	\$ 0.157		(Line 27 * Line 9) * 1/3 of year
29	Total Carrying Charges	\$ 9.133	\$ 0.702	\$ 3.128	\$ 3.070	\$ 16.033		Line 20 + Line 24 + Line 28
30	2003 Actual Pension/PBOP Adjustment Amount	-	-	-	-	-		Line 35 prior year true-up
31	less: 2003 Actual Pension/PBOP Adjustment Revenue	-	-	-	-	-		Per Company Records
32	Prior Period Reconciliation Amount	-	-	-	-	-		Line 30 - Line 31
33	Interest	-	-	-	-	-		Prime rate as per 220 § 6.08(2)
34	Past Period Reconciliation Amount	-	-	-	-	-		Line 32 + Line 33
35	Forecasted 2004 Pension/PBOP Adjustment Amount	11.245	1.998	3.714	4.087	21.044		Line 6 + Line 29 + Line 34

Note 1: Includes Boston Edison pension deferral of \$4.198 million from D.P.U. 92-92

Note 2: Includes Cambridge Electric deferral and carrying charges of \$3.712 million from phase-in of SFAS 106 (D.P.U 92-250)

Note 3: This before-tax factor is equal to the after-tax factor of 8.16 percent authorized by the Department.

Note 4: The balances have been reduced to eliminate the amount recovered from transmission customers (3.54%) and non-utility businesses (1.53%).

**2005 Pension Adjustment Mechanism  
Recoverable Pension and PBOP Plan Expenses For 2004 (\$'s in millions)**

Line	Account	NSTAR					Description
		Electric & Gas Co. *	Boston Edison	Cambridge Electric	Commonwealth Electric	NSTAR Gas	
		Col. B	Col. C	Col. D	Col. E	Col. F	Col. G
1	<b>Account 926 Employee Benefits (2004 estimate)</b>						Company Allocations
2	Pension cost (Account 926100), per FAS 87	\$ 31,691	50.52%	2.74%	22.17%	24.57%	
3	Charged to Capital (Account 926100)	(10,374)					
4	Pension Expense	\$ 21,317					
5	Recoverable Pension Plan Expense (926000 & 926760)		\$ 10,769	\$ 0,585	\$ 4,726	\$ 5,237	Sum of lines 2 and 3
6	Less: Transmission Component (Electric Only)		(0,744)	(0,123)	(0,188)	-	Line 1 * Col B, Line 4
7	Distribution Pension Expense		\$ 10,025	\$ 0,463	\$ 4,539	\$ 5,237	Transmission labor allocator * Line 5
							Sum of lines 5 and 6
8	PBOP cost (Account 926320)	\$ 27,400					
9	Less: Gross-up for Medicare Act reduction	(4,469)					
10	PBOP cost including tax effects	22,931					
11	Charged to Capital (Account 926320)	(7,506)					
12	PBOP Expense	\$ 15,424					
13	Recoverable PBOP Plan Expense (926000 & 926760) **		\$ 7,792	\$ 0,423	\$ 3,420	\$ 3,789	Sum of lines 10 and 11
14	Less: Transmission Component (Electric Only)		(0,538)	(0,089)	(0,136)	-	Line 1 * Col B, Line 12
15	Distribution PBOP Expense		\$ 7,254	\$ 0,335	\$ 3,284	\$ 3,789	Transmission labor allocator * Line 13
							Sum of lines 13 and 14
16	<b>Total Recoverable Distribution Pension and PBOP Plan Expenses</b>		\$ 17,278	\$ 0,797	\$ 7,823	\$ 9,026	Sum of lines 7 and 15

\* Total Benefits are charged to Utility Companies from NSTAR Electric & Gas Company. Recoverable amounts under this mechanism include only the components of the accounts attributable to pension and PBOP.

\*\* Charges for service company employees are in account 926000, while charges for company direct employees are in account 926760.

**2004 Pension Adjustment Mechanism  
Recoverable Pension and PBOP Plan Expenses For 2003 (\$'s in millions)**

Line	Account	NSTAR						Description
		Col. A	Electric & Gas Co. *	Boston Edison	Cambridge Electric	Commonwealth Electric	NSTAR Gas	
1	Account 926 Employee Benefits (2003 Sep. - Dec.)							
2	Pension cost (Account 926100), per FAS 87			Col. C	Col. D	Col. E	Col. F	Col. G
3	Charged to Capital (Account 926100)	\$ 15,504		51.89%	2.58%	21.91%	23.62%	Company Allocations
4	Pension Expense	(4,763)						
5	Recoverable Pension Plan Expense (926000 & 926760)	\$ 10,741		\$ 5,574	\$ 0,277	\$ 2,353	\$ 2,537	Sum of lines 2 and 3
6	Less: Transmission Component (Electric Only)			(0.197)	(0.010)	(0.083)	-	Line 1 * Col B, Line 4
7	Distribution Pension Expense			\$ 5,377	\$ 0,268	\$ 2,270	\$ 2,537	Sum of lines 5 and 6
8	PBOP cost (Account 926320)	\$ 12,953						
9	Charged to Capital (Account 926320)	(3,979)						
10	PBOP Expense	\$ 8,974						Sum of lines 8 and 9
11	Recoverable PBOP Plan Expense (926000 & 926760) **			\$ 4,657	\$ 0,232	\$ 1,966	\$ 2,119	Line 1 * Col B, Line 10
12	Less: Transmission Component (Electric Only)			(0.165)	(0.008)	(0.070)	-	
13	Distribution PBOP Expense			\$ 4,492	\$ 0,224	\$ 1,896	\$ 2,119	Sum of lines 11 and 12
14	Total Recoverable Distribution Pension and PBOP Plan Expenses			\$ 9,869	\$ 0,491	\$ 4,166	\$ 4,656	Sum of lines 7 and 13

\* Total Benefits are charged to Utility Companies from NSTAR Electric & Gas Company. Recoverable amounts under this mechanism include only the components of the accounts attributable to pension and PBOP.

\*\* Charges for service company employees are in account 926000, while charges for company direct employees are in account 926760.